SCHEDULE A

AN ANNUAL BUDGET AND SUPPORTING DOCUMENTATION MOPANI DISTRICT MUNICIPALITY

DRAFT ANNUAL BUDGET OF

MOPANI DISTRICT MUNICIPALITY

2015/2016 TO 2017/18

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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- In the main office and sub-offices of all municipal buildings
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Table of Contents

Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative
BC	Budget Committee
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
FBS	Free basic services
GDP	Gross domestic product
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Plan
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MMC	Member of Mayoral Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Municipality Regulator South Africa
NKPIs	National Key Performance Indicators
OP	Operational Plan
PMS	Performance Management System
PPE	Property Plant and Equipment
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

The report will be included when the final budget is approved during May 2015.

1.2 Council Resolutions

Council of Mopani District Municipality met to consider the annual budget of the municipality for the financial year 2015/2016. The Council approved and adopted the following resolutions:

1. The Council of Mopani District Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

    1.1. The annual budget of the municipality for the financial year 2015/2016 and the multi-year and single-year capital appropriations as set out in table A1 to A10 and supporting tables SA 1 to SA 37.

    1.1.1. A1: Budget Summary
    1.1.2. A2: Budgeted Financial Performance (revenue and expenditure by standard classification).
    1.1.3. A3: Budgeted Financial Performance (revenue and expenditure by municipal vote)
    1.1.4. A4: Budgeted Financial Performance (revenue by source and expenditure by type)
    1.1.5. A5: Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
    1.1.6. A6: Budgeted financial position
    1.1.7. A7: Budget Cash flow
    1.1.8. A8: Cash backed reserves/accumulated surplus reconciliation
    1.1.9. A9: Asset Management
    1.1.10. A10: Basic Service Delivery measurement

2. The Council of Mopani District Municipality will adopt the following budget related policies on 29 May 2015.

    2.1. Fleet management policy
    2.2. tariffs policy
    2.3. indigent policy
    2.4. budget policy
    2.5. investment policy
    2.6. Virement policy
    2.7. Supply chain Management policy
    2.8. Asset management policy
    2.9. Writing off of bad debts policy
    2.10. Inventory
    2.11. Support to Traditional Leaders
    2.12. Credit control and debt collection

3. The Council of Mopani District Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) will adopt the tariffs for water and sewerage as per annexure (Greater Tzaneen, Greater Letaba, Ba-Phalaborwa, Greater Giyani and Maruleng), unmetered yards in villages, fire services and sale of tender documents.

1.3 Executive Summary

The Mopani District Municipality on the 29th August 2014 approved a time schedule outlining the key deadlines in terms of the preparation of both IDP and budget for the 2015/2016 financial year. In the reminding ourselves about the objectives of the Municipal Finance Management Act, the application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the Mopani District Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The service delivery priorities were reviewed as part of this year's planning and budget process. The municipality's budget has been aligned to the national key indicators to allow maximum service delivery. The current climate has given rise to a need by municipality to maximise on water projects. In the previous year, the municipality appointed a service provider for the compilation of the Revenue Enhancement Strategy, which will include policy for credit control and debt collection. The strategy will therefore give birth to compilation of the Indigent Register for an effective implementation of the strategy.

National Treasury's MFMA Circular No. 51, 54, 55, 58, 59, 66, 67, 70 , 72 , 74 and 75 were used to guide the compilation of the 2015/2016 MTREF.

The main challenges experienced during the compilation of the 2015/2016 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water infrastructure;
- The need to reprioritise projects and expenditure within the existing available resources given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Lepelle Northern Water and Eskom), which is placing upward pressure on service tariffs to residents.
- Affordability of capital projects considering that the municipality is predominantly rural with no infrastructure.
- Fully taking over the staff and liabilities from DWA.
- Cost effective tariff implementation on residents.

Our budget was informed amongst others by the following:

- The 2014/15 Adjustments Budget priorities and targets,
- Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services

that are beyond the control of the municipality, for instance the cost of bulk water and electricity.

- Ensuring that service delivery and capital projects use labour intensive methods;
- Ensuring that service providers use labour intensive approaches;
- Supporting labour intensive LED projects;
- Participating fully in the Extended Public Works Programme; and
- Implementing interns programmes to provide young people with on the job training.

The table below gives an overview of the Mopani District Municipality 2014/2015 budget

Table 1 Consolidated Overview of the 2014/2015 MTREF

R Thousand	Budget Year 2015/2016	Budget Year 2016/2017	Budget Year 2017/2018
Total Revenue	1’301’530’377	1’361’144’084	1’464’342’788
Total Operating Expenditure	1’474’747’214	1’731’663’495	1’474’625’211
Surplus/(Deficit) after capital exp	36’216	(188’560’254)	201’360’298

1.4 Operating Revenue Framework

The municipality derives its revenue mainly from grants and subsidies.

The following table is a summary of the 2014/2015 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	2015/16	2016/17	2017/18
Equitable Shares	631’553’000	689’900’000	750’934’000
EPWP	1’630’000	0	0
Rural Household Sanitation Grant	0	7’000’000	9’000’000
Financial Management Grant	1’325’000	1’460’000	1’795’000
Municipal Systems Improvement Grant	940’000	960’000	1’033’000
Municipal Infrastructure Grant	445’152’000	464’146’000	492’617’000
Rural Transport Grant	2’001’000	2’049’000	2’186’000
Interest Earned	2’850’000	1’600’000	1’650’000
Services charges- Water and Sewage	155’335’377	129’637’684	138’770’388
Rent-Water Tower	54’000	60’000	65’000
Other revenue	60’744’000	64’331’400	66’292’400
Total	**1’301’530’377**	**1’361’144’084**	**1’464’342’788**

The table below illustrate the breakdown of the services charges of Water and Sewage per local municipality

Municipality	**2015/16**	**2016/17**	**2017/18**
Ba-Phalaborwa-Water	33’703’943	35’692’476	37’691’354
Ba-Phalaborwa-Sewerage	8’088’033	8’565’227	9’044’880
Greater Giyani- Water	3’979’176	4’213’947	4’449’928
Greater Giyani- Sewerage	2’976’281	3’151’882	3’328’387
Greater Letaba – Water	8’424’323	8’879’236	9’358’715
Greater Letaba – Sewerage	3’857’389	4’065’688	4’285’235
Greater Tzaneen – Water	76’224’773	80’722’035	85’242’68
Greater Tzaneen – Sewerage	12’662’138	13’409’204	14’160’120
Maruleng – Water and Sewerage	5’419’321	5’739’061	6’060’448
Total	**155’335’377**	**129’367’684**	**138’770’388**

Included in the above table which illustrate the services charges on water and sewage are interest on outstanding debtors by local municipalities.

Municipality	**2015/16**	**2016/17**	**2017/18**
Ba-Phalaborwa-Water	10’834’360	11’473’587	12’116’108
Ba-Phalaborwa-Sewerage	2’085’132	2’208’155	2’332’811
Greater Giyani- Water	1’480’049	1’567’372	1’655’145
Greater Giyani- Sewerage	275’183	291’419	307’738
Greater Letaba – Water	843’072	888’598	936’582
Greater Letaba – Sewerage	422’401	445’211	469’252
Greater Tzaneen – Water	7’000’000	7’413’000	7’828’128
Greater Tzaneen - Sewerage	600’000	635’400	670’982
Maruleng – Water & Sewerage	26’614	28’184	29’763
Total	**22’723’739**	**24’950’926**	

1.4.1 Sale of Water and Impact of Tariff Increases

Mopani District Municipality is a Water Services Authority and has appointed the locals municipality as Water Service Providers. In addition to the local municipalities been appointed as water service providers, the Lepelle Northern Water has also been appointed to do water provisioning in other areas of the district. Water Service Level Provision Agreements have been signed will all involved in water service provisioning.

- Water tariffs are fully not cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Tariffs policy and indigent policy have been prepared and forms part of the budget related policies presented to give effect to the effective implementation of all issues mentioned above.

The bulk supply of water is done by Lepelle Northern Water using Politsi, Modjadji, Ba-Phalaborwa and Nkowankowa schemes.

An average across the board tariff increase of 5.7 per cent from 1 July 2015 for water is proposed. This is based on input cost assumptions of for each individual schemes. In addition 6 kℓ water per month will again be granted free of charge to all indigents households.

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1.4.2 Sanitation and Impact of Tariff Increases

A tariff increase of 5.7 per cent for sanitation from 1 July 2015 is proposed. This is based on the input cost assumptions related to water.

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation will be applicable to registered indigents; and

Proposed tariffs are as per annexure

1.4.3 Overall impact of tariff increases on households

The overall percentage increase on tariffs is on average 5.7. For the sale of tenders, these are the reviewed tariffs determined in terms of the approved tariff policy.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2015/2016 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2015/2016 budget and MTREF (classified per main type of operating expenditure):

Table 3 Summary of operating expenditure by standard classification item

EXPENDITURE BY TYPE	**2015/2016** **R**	**2016/2017** **R**	**2017/2018** **R**
Employee related cost-Salaries and wages	299’098’601	317’530’758	335’648’842
Employee related cost-Social contribution	68’919’205	72’945’629	77’945’629
Depreciation	173’253’053	181’959’157	191’077’875
Debt impairment	12’399’835	12’676’253	13’382’684
Repairs and Maintenance	86’110’864	134’631’101	143’471’545
Contracted Services	12’176’660	13’179’428	13’917’428
Bulk Purchases	199’763’000	209’751’150	220’238’708
General Expenditure	150’759’976	168’654’367	177’456’059
Capital Outlay	15’910’000	20’135’500	19’711’025
Infrastructure	456’356’020	600’200’000	8’350’000
Total	**1’474’747’214**	**1’731’663’495**	**1’474’625’211**

The budgeted allocation for employee related costs for the 2015/16 financial year totals R368'017'806, which is 37 per cent of the total operating expenditure. Salary increases have been factored into this budget as per the Municipal Finance Management Act Circular no. 75 at a percentage increase of 4.4 per cent for the 2015/2016 financial year. An annual increase of 6.15 and 5.85 per cent has been included in the two outer years of the MTREF respectively.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation and the adjustment in the equitable share allocation in this regard have been taken into account in compiling the municipality's budget.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption.

Bulk purchases are directly informed by the purchase of water from Lepelle Northern Water and the Department of Water Affairs. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals.

Other expenditure comprises of various line items relating to the daily operations of the municipality.

1.5.1 Priority given to repairs and maintenance

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the budget and MTREF provide for extensive growth in the area of asset maintenance as informed by the asset renewal strategy and repairs and maintenance plan from the municipality.

During the compilation of the budget, operational repairs and maintenance was identified as a strategic imperative owing to the aging of municipal infrastructure and historic deferred maintenance.

Due to financial constraint, the municipality could not provide adequately for the repairs and maintenance of Property, plant and equipment.

1.5.2 Free Basic Services: Basic Social Services Package

Mopani District Municipality provides as part of its basic social services package both free basic water of 6kl and free sanitation for all indigent households per month.

1.6 Capital expenditure

The total capital budget for the 2015/2016 financial year amounts to R472'266'020 of which R438'756'020 is for municipal infrastructure grant, representing 92.9 percent of total capital budget. Other capital projects amount to R33'510'000 which include amongst others Smart meter systems, Installation of meters, vehicles and other administrative equipment.

Further detail relating to asset classes and proposed capital expenditure is contained in Table A9 (Asset Management). In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class. Some of the salient projects to be undertaken over the medium-term includes, amongst others:

The following are some of the capital expenditure projects to be implemented in the 2015/2016 financial year:

Sekgosese Water Development Water Scheme	:	R 8 500 000
Hoedspruit Bulk Water supply	:	R46 744 409
Kampersrus Sewage Plant	:	R34 071 488
Upgrading of water reticulation in Greater Letaba	:	R 9 000 000
Jopie Mawa Bulk Water Supply	:	R41 229 578
Upgrading of water reticulation in Ba-Phalaborwa	:	R60 119 152
Upgrading of water reticulation in Maruleng	:	R58 964 508
Kampersrus Water Supply	:	R25 000 000
Upgrading of Thabina Water Treatment Plant	:	R46 192 340
Tours Bulk Water scheme	:	R 4 323 987
Tours Bulk Water Scheme (upgrading)	:	R56 377 207
Upgrading of Nkowankowa Sewer Plant	:	R 7 456 017
Upgrading of Phalaborwa Sewer Plant	:	R22 000 000
Mopani Rural Household Sanitation	:	R 8 777 334
Lephepane Bulk Water Scheme	:	R10 000 000
Installations of meters	:	R 8 000 000
Installation of USSD Electronic Reporting System	:	R 1 200 000
Rehabilitation of Lulekani Waste Water Treatment Plant	:	R 2 000 000
Rehabilitation of Namakgale Waste Water Treatment pant	:	R 4 500 000

1.6.1 Future operational cost of new infrastructure

The infrastructure development done is mainly in the rural areas and presently there is no revenue collection done at these areas hence no operational cost of new infrastructure.

1.7 Annual Budget Tables – Mopani District Municipality

Ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2014/2015 budget and MTREF as adopted by the Council.

1.7.1. Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

1.7.2. Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Water and Sanitation. This situation is due to distribution losses, debt impairment and salaries and allowances of personnel operating in rural areas where there is no billing. The tariffs for local municipalities are also not cost reflective. The revenue generated is less than the expenditure.

1.7.3. Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

1.7.4. Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue excluding capital transfers is R637million in 2015/2016 and escalates to R694 million and R756 million by 2016/17 and 2017/2018 respectively. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government.
The main component of the total revenue is grant and subsidies amounting to R1'083 billion, R1'166 billion and R 1'258 billion for the financial years 2015/2016, 2016/2017 and 2017/2018 respectively. The other revenue component is Service charges for water & sanitation amount to R155 million, R 129 million, R137 million for the financial years 2015/2016, 2016/2017 and 2017/2018 respectively. The main components of other income is sale of tenders at R1.0 million, fire services charges at R200 000 and revenue from Ba-Phalaborwa amounting to R59 000 000.

The total operating expenditure is projected to be R1'002 billion in 2015/16, R 1'111billion and R 1'447billion in the 2016/17 and 2017/18 financial years. The finance charges constitute of interest paid and bank charges.

1.7.5. Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2015/2016 R472 million has been allocated.

Explanatory notes to Table A6 - Budgeted Financial Position

Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
Table SA3 provides a detailed analysis of the major components of budgeted financial position items, including:

- Property, plant and equipment;
- Trade and other payables;
- Changes in net assets; and

The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

1.7.7. Explanatory notes to Table A7 - Budgeted Cash Flow Statement

The budgeted cash flow statement is the first measurement in determining if the budget is funded.
It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
Cash and cash equivalents totals for 2015/2016 amounts to R19 million.

1.7.8. Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
As indicated in Table SA 10, the Mopani District Municipality's budget is fully funded for the 2015/2016 financial year.

1.7.9. Explanatory notes to Table A9 - Asset Management

Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class. An amount of R208 million will be spend on new assets in the 2015/2016 financial year while an amount of R263 million will be spend on renewal of existing assets.

1.7.10. Explanatory notes to Table A10 - Basic Service Delivery Measurement

Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
As indicated in the Mayor's Report, the Municipality continues to make good progress with the eradication of backlogs with sanitation backlog being targeted. The new statics information shows that the households have increased with around 25 percent from the previous statistics, hence the increase in backlogs.

2 Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Head of Finance Portfolio Committee.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2014) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule in August 2014. Key dates applicable to the process were:

- **27-28 March 2015** – Strategic planning session took place at Karibu. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2015/2016 MTREF;
- **26 February 2015** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **04 February 2015** - Council considers the 2014/15 Mid-year Review
  25 February 2015 - Adjustments Budget is approved;
- **30 March 2015** - Tabling in Council of the draft 2015/2016 IDP
- **04– 08 May 2015** MTREF 2015/2016 for public consultation
- **28 May 2014** - Tabling of the 2015/2016 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The IDP has been taken into a business and financial planning process leading up to the 2015/2016 MTREF, based on the approved 2014/15 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2015/2016 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2014/15 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2015/2016 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2015/2016 MTREF:

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2014/15 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54, 58, 59, 66, 67, 70, 72, 74, 75 and the cost containment measures has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

After the draft 2015/2016 MTREF tabled before Council on 31 March 2015 for community consultation was published on the municipality's website, and hard copies will be made available at customer care offices, municipal notice boards and various libraries.

The public participation process took place from 04-08 May 2015.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

2.2 Overview of alignment of annual budget with IDP

The IDP is informed by the consultation process with the community through community public participation process. Priorities are identified and reprioritized taking into consideration the need to satisfy the basic needs of the community.

This is costed annually through the Medium Term Revenue Expenditure Framework taking into account the availability of funds and the need to provide sustainable basic services.

The IDP has been guided amongst others by the following:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.
- Limpopo employment, Growth and Development plan

2.3 Measurable performance objectives and indicators

The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual directors' performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monthly Monitoring monitoring and checking on the progress against plan;
- Identifying areas requiring change and improvement;
- Quarterly reporting to council
- Making changes where necessary.

2.3.1 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality.
All qualifying indigent's households receive 6 kl per month of free basic water and free sanitation as per indigent policy of the municipality.

2.3.2. Providing clean water and managing waste water

In terms of the 2009/2010 financial year performance with regard to the provision of all schemes in the district that are run by both Lepelle Northern Water and Greater Tzaneen Municipality, have a blue drop status. The schemes that are run by the Mopani District Municipality had status of between 20 and 30 percent in the 2009/2010 financial year.

For the financial year, 2010/2011, the Mopani District received an average of 72% for the blue drop status. Tzaneen and Nkowankowa schemes received the blue drop status.

BLUE DROP PROGRESS REPORT 2012

PROVINCIAL PERFORMANCE: POSITION 3

MOPANI OVERALL SCORE; 79.21%

PLANTS RUN BY TZANEEN LOCAL MUNICIPALITY

1. Tzaneen Water Supply System: Have Blue Drop Certificates
2. Letsitele Water Supply System: have Blue Drop Certificate

PLANTS RUN BY LEPPELLE WATER BOARD

1. Phalaborwa 92.63%
2. Nkowankowa 93.07%
3. Politsi/Modjadji 92.88%

PLANTS RUN BY MDM

1. Nondweni 66.27%
2. Nkambako 67.39%
3. Tours 80.49%
4. Thabina 64.41%
5. Thapane/Semarela 65.68%

6. Giyani 65.48%
7. Mapuve 63.17%
8. Middle Letaba 66.18%

GREEN DROP 2013

PROVINCIAL POSITION; 2

PLANTS PERFORMANCE

1. Tzaneen 94.14%
2. Giyani 16.95%
3. Lenyenye 8.03%
4. Nkowankowa 24.91%
5. Lulekani 23.38%
6. Namakgale 26.05%
7. Phalaborwa 22.24%
8. Kgapane No Monitoring results due to lack of instruments.

2.4 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies and all policies are reviewed

2.4.1 Credit control and debt collection procedures/policies

The Credit control and debt collection will be reviewed for the 2015/2016 financial year.

2.4.2 Asset Management Policy

The Asset Management, Infrastructure and Funding Policy is considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. The policy will be reviewed for 2015/2016 financial year.

2.4.3 Budget Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial

management practices of municipalities. The policy will be reviewed for 2015/2016 financial year.

2.4.4 Supply Chain Management Policy

The goal of this Policy is to provide a mechanism to ensure sound, sustainable and accountable supply chain management within the Mopani District Municipality, whilst promoting black economic empowerment.

The Supply Chain Management Policy has been reviewed and comments were also sought from Provincial Treasury. The policy will be reviewed for 2015/2016 financial year.

2.4.5 Cash Management and Investment Policy

The purpose of this policy is to secure the sound and sustainable management of Mopani District Municipality's surplus cash and investments.

The Municipality's Cash Management and Investment Policy will be reviewed for 2015/2016 financial year.

2.4.6 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policy will be reviewed for 2015/2016 financial year.

2.4.7 Indigent policy

The indigent policy seeks to balance the immediate needs of the poor population to have access to affordable basic services with the long term implications of failure to implement remedial measures coupled with the provision of affordable services to indigents in a financially viable manner.

The policy will be reviewed for 2015/2016 financial year.

2.4.8 Writing off of bad debts

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

The policy will be reviewed for 2015/2016 financial year.

2.4.9 Virement policy

The purpose of this policy is to provide a framework whereby transfers between

line items within votes of the operating budget may be performed with the approval of certain officials.

The policy will be reviewed for 2015/2016 financial year.

2.4.10 Inventory Policy

The purpose of this policy is to ensure that all the inventory management processes relating to purchasing, issuing and control are formalised.

The policy will be reviewed for 2015/2016 financial year.

2.4.11 Support to Traditional Leaders Policy

The purpose of this policy is to provide guidance to the municipality on the support to be provided to the traditional leaders within the district jurisdiction.

The policy will be reviewed for 2015/2016 financial year.

2.1.12 Fleet management Policy

The purpose of this policy is to clarify the position regarding the municipal transport. This covers the use of municipal transport within the municipality and inter alia the use of municipal vehicles permanently allocated to a specific department.

The policy will be reviewed for the 2015/2016 financial year.

2.5 Overview of budget assumptions

2.5.1 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2015/2016 MTREF:

- National Government macro economic targets;
- The general inflationary outlook of 4.8%
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration.

2.5.2 Collection rate for revenue services

The debt impairment as indicated in the budget seeks to indicate that more efforts need to be put in the collection process.

2.5.3 Salary increases

Salary increases as guided by Circular 75 of National Treasury is 4.4%.

2.5.4 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

The municipality's infrastructure projects are labour intensive.

2.5.5 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 99 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2015/2016 MTREF of which performance has been factored into the cash flow budget.

2.6 Budget funding compliance and funding measurement

2.6.1 Cost containment measures

The cost containment measures must be implemented to eliminate waste, reprioritise spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and events cost as well as costs for accommodation. Municipalities were strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

2.7 Municipal manager's quality certificate